

Exhibit C



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 31, 2024

Ama Adams
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Re: CFIUS Case 24-088: Nippon Steel Corporation (Japan)/United States Steel Corporation

Dear Ms. Adams and Mr. Plotkin:

I am writing on behalf of the Committee on Foreign Investment in the United States ("CFIUS" or the "Committee") regarding CFIUS Case 24-088, involving the proposed indirect acquisition by Nippon Steel Corporation ("Nippon Steel"), a public Japanese corporation with its principal place of business in Tokyo, Japan, of 100 percent of United States Steel Corporation ("U.S. Steel"), a public Delaware corporation with its principal place of business in Pittsburgh, Pennsylvania (the "Transaction").

The Committee has identified risks to the national security of the United States arising as a result of the Transaction. To the extent that they can be summarized at an unclassified level, such risks relate to potential decisions by Nippon Steel that could lead to a reduction in domestic steel production capacity. In reaching this conclusion, the Committee relied upon the U.S. Department of Commerce ("Commerce") analysis that considered that a robust commercial steel market is essential for national security, as the market-oriented U.S. steel industry requires steady revenue from sustained commercial production to meet critical industry steel requirements.¹

In conducting its analysis of whether a transaction poses national security risks, CFIUS assesses whether a foreign person has the intent and capability to take action to impair the national security of the United States (the "threat"), whether the nature of the U.S. business makes it susceptible to exploitation that could result in such impairment (the "vulnerability"), and the potential effects on national security that could reasonably result from the exploitation of the vulnerabilities by the threat actor (the "consequence"). Risk to U.S. national security is thus a function of the interaction among threat, vulnerability, and consequence.

In reaching its determination, CFIUS relied upon both classified and unclassified information, including the assessments of subject matter experts from Commerce. Sources of unclassified information include the Parties' joint voluntary notice, including all documentary materials

¹ *The Effect of Imports of Steel on the National Security, An Investigation Conducted Under Section 232 of the Trade Expansion Act of 1962, as amended*, U.S. Department of Commerce, January 11, 2018.

submitted therewith, submitted on March 13, 2024; parties' presentations to CFIUS on February 21, 2024 and August 19, 2024; and information provided by the Parties in response to nineteen (19) rounds of questions (collectively, the "Notice"). In addition, CFIUS considered certain unclassified information obtained from websites, press reports, and other information available in the public domain (please see the Annex attached to this letter). CFIUS also relied on unclassified information submitted to the Committee by an individual Party to the Transaction with a request that it be treated as confidential (referred to hereafter as "information submitted confidentially by [name of Party]"). In each instance where this letter refers to such information submitted by a single Party, CFIUS has summarized the information at a high level for purposes of preserving the confidentiality requested by the submitting Party, while still identifying CFIUS's reliance on that information in reaching its determination.

In reviewing this Transaction, the Committee considered all factors of Section 721(f) of the Defense Production Act (DPA) (Section 721), as well as Executive Order (EO) 14083, which elaborated and expanded on these factors. In particular, the Committee considered "the control of domestic industries and commercial activity by foreign citizens as it affects the capability and capacity of the United States to meet the requirements of national security;" (Section 721(f)(3)) "the potential national security-related effects on United States critical infrastructure;" (Section 721(f)(6)); "the long-term projection of United States requirements for...critical resources and material;" (Section 721(f)(10)); and "such other factors as the President or the Committee may determine to be appropriate, generally or in connection with a specific review or investigation" (Section 721(f)(11)).

EO 14083 directs CFIUS to "assess the effect of foreign investment on domestic capacity to meet national security requirements, including those requirements that fall outside of the defense industrial base."² The EO affirms that the "resilience of certain critical United States supply chains may have national security implications."³ These factors overlap significantly with factors considered under the authorities described in "The Effect of Imports of Steel on the National Security, An Investigation Conducted Under Section 232 of the Trade Expansion Act of 1962, as amended." EO 14083 also states that, while "the United States recognizes the importance of cooperating with its allies and partners to secure supply chains...certain foreign investment may undermine supply chain resilience efforts and therefore national security..."⁴

In assessing whether the foreign person in this Transaction has the intent and capability to take action to impair U.S. national security, CFIUS considered several factors.

Japan is a critical ally of the United States and CFIUS considered the importance of our alliance to both countries' national security. For example, Japan is a vital trade and investment partner.⁵

² EO 14083, *Executive Order on Ensuring Robust Consideration of Evolving National Security Risks by the Committee on Foreign Investment in the United States*, section 2(a)(i), September 15 2022.

³ Ibid.

⁴ Ibid.

⁵ On February 7, 2022, Secretary Raimondo and U.S. Trade Representative Tai announced a new 232 tariff agreement with Japan. The agreement was based on a similar agreement between the U.S. and the EU. The new policy took effect on April 1, 2022. See also U.S. Japan Joint Statement, February 7, 2022, <https://www.commerce.gov/sites/default/files/2022-02/US-Japan-Joint-Statement.pdf>.

Nippon Steel is the largest steelmaker in Japan and the fourth-largest globally by quantity of steel produced, as of 2022. Nippon Steel employs approximately 106,000 people worldwide, including 4,000 in the United States, and its 2022 annual revenue was approximately \$53.9 billion. Nippon Steel has operations in 16 countries and a steel production capacity of approximately 72.5 million tons, of which 72 percent (52 million tons) is produced in Japan. Nippon Steel primarily manufactures steel products, including steel plates; steel sheets; bar and rod materials; railway, automotive, and machinery parts; structural steel; and stainless steel. Nippon Steel serves customers in a variety of sectors, including the automotive, energy, infrastructure, design metals, and consumer electronics sectors. Nippon Steel also has operations in raw materials procurement, chemicals and materials, steel slag recycling, and secondary processing for higher value-added products.

Nippon Steel operates eleven additional blast furnaces outside of the United States, some of which are considerably younger than U.S. Steel's, such as two blast furnaces under construction in India.⁶ India is one of the largest production markets for Nippon Steel outside of China. Nippon Steel continues to expand its India presence and manufacturing base. According to public reports, Nippon Steel plans to double its production capacity in India by 2030.⁷ A review of the overall cost of steel production in facilities in the United States and India shows that costs in the United States are significantly higher than that in India. According to Transition Zero and Global Efficiency Intelligence (2022) – Global Steel Production Costs, the average total cost of blast furnace operation in the United States is \$578.26/ton and that in India is \$458.30/ton, and the average labor cost of blast furnace operation in the United States is \$66/ton and that in India is \$9/ton.⁸ In addition, relative to all major steel producing countries, India has the lowest cost of blast furnace production.⁹ (Brazil and Mexico, where Nippon Steel also has operations, have similar cost considerations relative to the United States. Specifically, the total cost of blast furnace operation in Mexico is \$548.07/ton and \$512.23/ton in Brazil with total labor cost of blast furnace operation in Mexico is \$17/ton and \$25/ton in Brazil.)¹⁰

India is a strong exporter of steel mill goods. In 2023, Indian producers exported 9.2 million metric tons of steel to the world, a 26.6 percent increase in volume over 2015.¹¹ For pipe and

⁶ Yuji Ohira, "Nippon Steel pivots away from China to zero in on U.S., India," Nikkei Asia, August 9, 2024, see <https://asia.nikkei.com/Business/Materials/Nippon-Steel-pivots-away-from-China-to-zero-in-on-U.S.-India#:~:text=TOKYO%20%2D%2D%20Nippon%20Steel's%20global,U.S.%2C%20India%20and%20Southeast%20Asia>.

⁷ Arata Shingen, "India economic boom lures investment from Nippon Steel venture," Nikkei Asia, February 6, 2024, see asia.nikkei.com/Business/Materials/India-economic-boom-lures-investment-from-Nippon-Steel-Steel-ventures#:~:text=India%20economic%20boom%20lures%20investment%20from%20Nippon%20Steel%20venture,-Country%20aims%20to&text=TOKYO%20%2D%2D%20India's%20growing%20economy,300%20million%20tonnes%20by%202030.

⁸ *Global Steel Production Costs Global Steel Cost Tracker—TransitionZero*. Accessed July 30, 2024.

<https://www.transitionzero.org/products/global-steel-cost-tracker>.

⁹ Ibid.

¹⁰ Ibid.

¹¹ Ibid.

tube products and stainless steel products, the United States was among the top three export destinations.¹²

As of March 31, 2023, Nippon Steel has 54 affiliates involved in steelmaking and steel fabrication, of which 31 are majority or wholly owned subsidiaries.¹³ Nippon Steel's steel operations span Japan, Thailand, the United States, Mexico, Sweden, China, the UAE, Brazil, India, and Luxembourg. Nippon Steel has numerous subsidiaries and affiliates in China. China accounts for approximately five percent of Nippon Steel's total production capacity. Nippon Steel does sometimes contest harmful Chinese practices, such as when it filed a lawsuit in 2021 against Baoshan Iron & Steel Co., Ltd., a subsidiary of Baowu Steel Group, alleging infringement of Nippon Steel's patents relating to electrical steel; however, it rarely does so using U.S. trade measures.

In considering Section 721(f) factors, Commerce considered the global environment surrounding steel supply and resultant weak market conditions in connection with this Transaction. China has the capability to produce as much steel as the rest of the world combined.¹⁴ In 1978, when the People's Republic of China (PRC) began to open its economy, the United States produced four times more steel than the PRC. Now, the PRC produces 12 times more steel than United States does.¹⁵ Chinese steel production surpassed that of the United States in 1993, and in 1996, PRC overtook Japan to be the top global producer.¹⁶ Through its persistent use of market-distorting government interventions and other non-market policies, the PRC has unfairly gained dominance in the global steel market allowing it to have an outsized impact, as it exports extensive surplus steel that artificially lowers international prices. In 2022, the PRC produced approximately 54 percent of total global crude steel and was the largest exporter, exporting 68.1 million tons. Chinese excess capacity, estimated at more than 300 million metric tons, dwarfs total U.S. production capacity. Global supply has a significant impact on prices within the international steel market, and the depressed business conditions and market volatility caused by excess capacity and the artificially low prices it creates is a key factor in domestic mill closures.

Markets globally are adversely affected by chronic global excess production led by the PRC, and global supply is outpacing global demand. The United States is the world's largest steel importer and imports a significant percentage of steel used in the domestic market.¹⁷ Currently, much of

¹² Ibid.

¹³ *Principal Subsidiaries and Affiliates (As of March 31, 2024)*, accessed August 29, 2024. Nipponsteel.com

¹⁴ *The Effect of Imports of Steel on the National Security, An Investigation Conducted Under Section 232 of the Trade Expansion Act of 1962, as amended*, U.S. Department of Commerce, January 11, 2018, p. 52. For example, in 2017, the PRC produced 831 metric tons of crude steel, Japan produced 104.7 tons, and the United States produced 116 tons. See Seth, Shobhit. "How China Impacts the Global Steel Industry." 31 JAN 2022. Investopedia. <https://www.investopedia.com/articles/investing/021716/how-china-impacts-global-steel-industry.asp>.

¹⁵ *Leveling the Playing Field: How to Counter the CCP's Economic Aggression: Hearing before the U.S. House Select Committee on the Strategic Competition between the United States and the Chinese Communist Party*, 118th Cong. (2023).

¹⁶ Niccolo Conte, "Visualizing 50 Years of Global Steel Production." Visual Capitalist. 02 June 2021. <https://www.visualcapitalist.com/visualizing-50-years-of-global-steel-production/>.

¹⁷ *The Effect of Imports of Steel on the National Security, An Investigation Conducted Under Section 232 of the Trade Expansion Act of 1962, as amended*, U.S. Department of Commerce, January 11, 2018.

the PRC's excess production is lower grade, low value steel not suitable for use in advanced manufacturing, particularly in the automotive sector. However, as the PRC increasingly shifts to higher purity and more finished products, other steel-producing countries such as Japan and the United States will need to find ways to lower costs across their own production supply chains to remain competitive against Chinese imports.¹⁸ China has already demonstrated its willingness to flood the market with its surplus steel, which undermines domestic manufacturers, threatens critical industries, and creates increasing dependence on PRC producers.¹⁹

Nippon Steel continues to focus on cost control, carbon reduction, and improving production of higher margin products amidst this sluggish market created by Chinese overproduction. Nippon Steel stated it has no intentions of idling, permanently closing, reducing staff, or otherwise modifying any of U.S. Steel's blast facilities through 2026, but has acknowledged that the continued state of operations of U.S. Steel's facilities would depend on myriad factors, including projected medium- and long-term demand, availability and cost of raw materials, health of the facility, and other overall cost considerations.

Nippon Steel's relatively limited use of trade remedies in other jurisdictions was also considered. Beyond Japan, Nippon Steel presently has operations in Australia, Brazil, China, the European Union (EU), India, Indonesia, Thailand, and the UAE. Each of these jurisdictions have trade remedy laws that allow either parties, a regulator, or both to initiate an antidumping (AD) or subsidy (countervailing duty "CVD") proceeding. Based on publicly available data, of the 180 active foreign trade remedy proceedings involving steel products in these jurisdictions (excluding Japan), Nippon Steel or an affiliate has participated as a petitioner in seven of them, or approximately four percent.²⁰ Neither Nippon Steel nor any of its affiliates has filed a petition related to any active cases in Australia, China, the EU, India, or Indonesia, even though each of these countries has active trade measure proceedings related to steel products.²¹ Nippon Steel does not favor reliance on AD/CVD protections generally. While U.S. Steel frequently petitions for AD/CVD relief, Nippon Steel features prominently as a foreign respondent resisting trade relief for the U.S. domestic steel industry. Nippon Steel currently appears as a respondent or interested party in 19 AD or CVD cases involving Japan, China, Mexico, South Korea, and

¹⁸ Shida, Tomio, "China's surging steel exports risk new round of trade frictions." Asia Nikkei. 20 Dec 2023. <https://asia.nikkei.com/Spotlight/Comment/China-s-surging-steel-exports-risk-new-round-of-trade-frictions>. Accessed May 23 2024.

¹⁹ Testimony of John Ferriola Chairman, CEO & President of Nucor Corporation found in *The Effect of Imports of Steel on the National Security, An Investigation Conducted Under Section 232 of the Trade Expansion Act of 1962, as amended*, U.S. Department of Commerce, January 11, 2018.

²⁰ Japan has only two active trade measure proceedings, and Nippon Steel participates in both of them. Given the sample size these cases offer little guidance regarding Nippon Steel's disposition towards or against relying on national trade measure laws.

²¹ Based on information available to Commerce staff drawn from publicly available data. For EU cases, the petitioner is often an alliance that does not disclose its public membership, so it is unknown whether Nippon Steel's steel-producing affiliate located in Sweden is a petitioner.

Taiwan.²² Several of the orders that imposed duties on imports from Nippon Steel in these cases were obtained by U.S. Steel.²³

Nippon Steel has stated that it “intends to participate in trade remedy proceedings under consideration by governments in Southeast Asia” in which it operates, “assuming that the proposed trade remedy actions reflects [sic] the interest of Nippon Steel.” However, this does not constitute a guarantee that Nippon Steel will change its historically limited practices with respect to trade remedies proceedings.

Nippon Steel’s statements to the Committee further reflect to Nippon Steel’s relatively less aggressive use of trade measure proceedings. For example, Nippon Steel claimed the most important factor for determining whether trade actions are warranted is if imports are fairly priced compared to their own products. However, Nippon Steel’s provided statements on participation in AD/CVD cases provide a less robust active participation than U.S. Steel. Nippon Steel acknowledged that “U.S. Steel has been a proactive user of the U.S. trade remedy regime,” and has stated that it “will not interfere with U.S. Steel’s ability to maintain its historical approach to and participation in” AD/CVD proceedings. Nippon Steel has indicated that “decisions regarding participation” in AD/CVD “will be made by U.S. Steel’s management in consultation with Nippon Steel,” including decisions about whether imports are harmful. Nippon Steel pointed specifically to its “interest in ensuring the competitiveness of U.S. Steel, including through allowing U.S. Steel to participate fully in antidumping and countervailing duty measures against imports that harm U.S. Steel’s competitiveness in the U.S. market,” and suggested that it did not anticipate that the interests of U.S. Steel and Nippon Steel would diverge, in part because U.S. Steel and Nippon Steel would have an interest in structuring their operations “in a manner in which Nippon Steel’s exports to the United States” would not “directly compete with or harm U.S. Steel’s market position domestically.”²⁴

While these statements suggest that Nippon Steel does not, in the near term, intend to curtail U.S. Steel’s participation in AD/CVD proceedings, post-acquisition, U.S. Steel’s decisions on AD/CVD cases will be influenced by Nippon Steel, and may take into account Nippon Steel’s commercial interests and competitive position in the global steel market, which are broader than U.S. Steel’s domestic interests.

In assessing whether the nature of U.S. Steel makes it susceptible to exploitation that could impair national security, CFIUS considered several factors.

U.S. Steel had a production capacity of 22.4 million tons in 2023. U.S. Steel makes steel primarily for automotive, construction, consumer, electrical, industrial equipment, and energy

²² ITA, [https://access.trade.gov/ADCVD_Search.aspx] Accessed on July 15, 2024. For example, in 2021, Commerce applied a 199.43 percent tariff in a final review of corrosion resistant steel to Nippon Steel’s Chinese operations, causing Nippon Steel to cease shipments of those products to the United States altogether. 86 FR 16185; Corrosion-Resistant Steel Products from China, A-570-026. Nippon Steel has been subject to 77.7 percent AD duties on nickel plated flat steel and 71.35 percent duties on cold rolled steel from Japan.

²³ U.S. Steel was a petitioner in the 12 AD/CVD cases. ITA, [https://access.trade.gov/ADCVD_Search.aspx] Accessed on July 15, 2024.

²⁴ This risk is partially mitigated by the fact that Nippon Steel and U.S. Steel’s opposition to a petition may be disregarded by Commerce under certain circumstances.

customers. U.S. Steel is the world's 27th largest steel manufacturer, and the third largest steel maker in the United States.²⁵ U.S. Steel has four business segments: North American flat rolled steel plates and slabs; Mini Mill, which produces steel using an electric arc furnace and is more energy efficient; tubular products, which are prominently used in the oil and natural gas industries; and U.S. Steel Europe, which makes steel in Slovakia, according to the filing.

Maintaining a competitive U.S. domestic steel market, with enough capacity and capital to meet increasing domestic steel demands, is crucial to the downstream consumers of steel products, many of which are national security critical industries that must remain competitive domestically and globally. Steel is used in the transportation sector in bridges, tunnels, the national highway system, railcars and tracks, ports, and in over 19,000 airport runways and facilities. The United States has over 600,000 bridges made up, in part or in whole, of steel.²⁶ As such critical infrastructure ages, replacement parts, principally made of steel, will be increasingly important to maintaining vital national security infrastructure. Reduced domestic steel availability, especially of high purity steel produced in blast furnaces, may cause injurious delays to critical repairs that could lead to further degradation of these vital infrastructure assets. Further, steel is used in the energy sector in electric power generation, refineries, and nuclear facilities; there are over 6,000 power plants in the United States that require ongoing steel production for maintenance and repair.²⁷ U.S. Steel is also a supplier of steel for the agricultural market, and its overall market share in this industry is increasing. In 2022, U.S. Steel supplied over 190,000 tons of steel to the U.S. agricultural supply chain (a critical infrastructure market), which increased to over 200,000 tons in 2023. About a quarter of this steel was supplied through its basic oxygen furnaces (BOFs) or blast furnaces.

The U.S. domestic steel market, in its current composition, is already unable to meet domestic critical infrastructure and commercial demand, requiring a reliance on imports.²⁸

The history of U.S. Government actions to support the continued viability of the U.S. steel industry demonstrates that, across decades and administrations, the United States has consistently assessed that domestic steel production is essential for national security applications. Prior significant actions to address steel imports using quotas and/or tariffs were taken under various statutory authorities by President George W. Bush, President William J. Clinton (three times), President George H.W. Bush, President Ronald W. Reagan (three times), President James E. Carter (twice), and President Richard M. Nixon. Most recently, the 2018 Commerce investigation under Section 232 of the Trade Expansion Act found that robust industrial oriented steel manufacturing is essential for national security, as the free market system in the United States requires commercially viable steel producers to meet critical infrastructure steel

²⁵ World Steel Association | URL: www.worldsteel.org/data/world-steel-infigures-2023 || World Steel in Figures 2023 | 29 March 2024 |

²⁶ *The Effect of Imports of Steel on the National Security, An Investigation Conducted Under Section 232 of the Trade Expansion Act of 1962, as amended*, U.S. Department of Commerce, January 11, 2018.

²⁶ Ibid.

²⁷ Ibid.

²⁸ *The Effect of Imports of Steel on the National Security, An Investigation Conducted Under Section 232 of the Trade Expansion Act of 1962, as amended*, U.S. Department of Commerce, January 11, 2018.

requirements. In order to provide sufficient supply for national security needs, the domestic steel industry requires several factors to exist: steady production, efficiency, and revenue volume. It is the commercial and industrial customer sales—which are U.S. Steel’s primary customer base—that allow for the relatively steady production needed for manufacturing efficiency as well as revenue volume to sustain the business. Per the parties, the board of directors of U.S. Steel were not looking to sell U.S. Steel in 2023, but unsolicited approaches from several buyers forced the board of directors to consider strategic alternatives to its standalone strategy. Also, according to the parties, the board of directors undertook an exhaustive strategic alternative review process that canvassed more than 50 potential buyers, which resulted in 10 non-binding bids, five second round bids and ultimately resulted in the board of directors agreeing to Nippon Steel’s bid. Per the parties, the alternative final bid was Cleveland-Cliffs Inc.; however, Nippon Steel was selected because Nippon provided the highest value and certainty while presenting less regulatory risk than Cleveland-Cliffs.

Among other potential national security implications, Commerce affirms the continued validity of the 2018 Section 232 Report conclusion that a healthy and competitive domestic steel industry is in the national security interest. The 2018 Section 232 report found that an 80 percent capacity utilization rate is an important factor in the ability of the domestic steel industry to meet national security needs.²⁹

Overall domestic steel production capacity has been steadily declining in the United States for the last several decades. Utilization rates, including U.S. Steel’s, have been steadily declining from an average of 87 percent in 1998, to 81.4 in 2008, and finally to 69.4 percent in 2016.³⁰ As of 2023, U.S. Steel accounted for 17.81 percent of the U.S. steel supply, with the other major U.S. companies including Nucor Corp. (Nucor), (25.93 percent), Cleveland-Cliffs (16.90 percent), and Steel Dynamics (11.70 percent).

U.S. Steel’s average utilization across its North American flat rolled segment, its largest business line, for 2023 was 71 percent. U.S. Steel’s tubular segment, solely supplied by its Fairfield Works operation that went online in October 2020 only averages 63 percent utilization, well below the targets anticipated to be required for maintaining readiness.

The number of blast furnaces operating in the United States decreased from 38 to less than 15 between 1975 and 2016, during which time the number of Electric Arc Furnaces (EAFs) decreased from 127 to 98.³¹ This decline affects domestic steel producers’ current ability to meet national security production requirements for critical infrastructure. This capacity falls further short of the capacity needed to meet demands during an emergency, and further still if there are fewer U.S. operating blast furnaces, which are currently the only source for high purity steel used in the transportation industry, a critical infrastructure sector. While the steel industry is developing the technology to make such steel in EAFs, the research and development is ongoing,

²⁹ See Exhibit F in *The Effect of Imports of Steel on the National Security, An Investigation Conducted Under Section 232 of the Trade Expansion Act of 1962, as amended*, U.S. Department of Commerce, January 11, 2018.

³⁰ Utilization rates display the percentage of total steel capacity that is currently in use to produce steel.

³¹ *The Effect of Imports of Steel on the National Security, An Investigation Conducted Under Section 232 of the Trade Expansion Act of 1962, as amended*, U.S. Department of Commerce, January 11, 2018.

without an estimated timeline of when blast furnaces are no longer necessary to achieve the required purity standards. No domestic alternative currently exists to replace the lost production capacity and variety of steel products produced at scale in the near-term.

Production costs for zero-carbon steel are expected to double current crude steel production costs. In 2021, U.S. Steel announced a goal of achieving net-zero carbon emissions by 2050. Nippon Steel has begun working to reduce its total CO₂ emissions by 30 percent from 2013 levels by 2030 to meet targets set by the government of Japan. In May 2023, Nippon Steel started a full-scale study of the transition from the blast furnace steelmaking process to the EAF steelmaking process. Additionally, Nippon Steel has developed hydrogen injection technology that would be used to reduce carbon emissions from blast furnaces.

Some competitors are seeking to produce critical material for the transport and automotive sectors that are traditionally made in blast furnaces, such as automotive sheet, tin mill, and flat rolled products, in EAFs. EAFs cannot produce the same volume as blast furnaces, even while they attempt to diversify their production.³²

U.S. Steel recently added non-oriented electrical steel (NOES) production capabilities and is one of only two domestic producers of electrical steel in the United States. NOES is used in the cores of motors for electric vehicles (EVs), industrial processes such as pumping and fanning, and for consumer products, including appliances and small generators. NOES-dependent EVs are critical to national security as transportation, specifically mass-transit systems, are part of the critical infrastructure. With the focus on a transition in reducing the carbon impact, cities are increasingly focused on electric buses which use NOES in the core of the motor.

Despite some projected increases in capacity, domestic capacity will fall below domestic demand by over 61,000 tons of electrical steel by 2026, which is predicted to rise as high as 927,000 tons by 2030.³³ S&P Global estimates that the EV industry is facing significant challenges to meeting projected increased demand. Currently, limited domestic suppliers and production forces the U.S. EV industry to import electrical steel from countries such as China, Japan, and South Korea.³⁴ Scarcity of electrical steel has made it a strategic commodity integral to national security industries, which is already threatened due to a limited global supply base concentrated in a few countries, one of which is China, another is Japan.

Nippon Steel will also have to consider the cost of restarting mills that have been idled. Per U.S. Steel, the cost to restart a temporarily idled blast furnace is between \$2 and \$10 million, depending on how long it has been idled, and up to \$25 million for indefinitely idled furnaces to become operational again.

³² Parth Kumar (2024, May 30). *Electric arc furnace-based steel production is witnessing a global rise*. Down to Earth. <https://www.downtoearth.org.in/energy/electric-arc-furnace-based-steel-production-is-witnessing-a-global-rise>.

³³ Vittori, C., Evans, G., & Fini, M. (2021, December 14). *Electrical steel – Another temporary supply chain shortage or a threat to OEMs' electrification plans?* S&P Global Mobility. Accessed May 24, 2024, from <https://www.spglobal.com/mobility/en/research-analysis/electrical-steel-another-temporary-supply-chain-shortage.html>.

³⁴ Ibid.

The costs to restart indefinitely or permanently idled mills are even less predictable and “vary on a case-by-case basis,” per U.S. Steel. Due to this slow startup period, the aggressive vehicle electrification targets set by the 2021 Infrastructure Investment and Jobs Act, and the time required to ramp up production to full capacity or to restart idled furnaces, U.S. manufacturers in the automotive and transportation sectors will likely face supply chain disruptions as they confront limited local supply options, driving up motor costs in the short term and hurting their international competitiveness. In some trade agreements, including the United States – Canada Mexico Agreement, imported steel is not always a viable option. If current production of electrical steel is not maintained (or increased), the United States could become entirely dependent on foreign producers to supply these critical materials and products such as transformers and generators.³⁵ While U.S. Steel has closed or idled four mills since 2015, resulting in a loss of approximately 12.6 million tons of productivity in 2023 and 12.7 million tons per year of lost productivity over a five-year average due to challenging market conditions, historically and potentially as a result of its limited global footprint, U.S. Steel has maintained its commitment to the U.S. market and provided critical domestic production capacity.³⁶ A review of the company’s business plan indicates that the company plans to maintain operations in the United States, despite these challenging market conditions.

U.S. Steel has a history of attempts to improve its competitiveness with frequently changing operational priorities. Previous operational priorities include the Carnegie Way in 2013, an asset-revitalization program in 2017 and Best of Both in 2019 before leading to the current Best for All program in 2021. All four programs have resulted in U.S. Steel spending an estimated \$10.4 billion. The current Best for All program seeks to add an additional mini-mill similar to its Big River mini-mill and to convert its Granite City A and B into pig iron sources for its EAFs. However, the performance of the Big River Steel mini-mill has deteriorated over the past six quarters due to a mixture of declining steel prices and higher spot-market exposure leading to significant declines in profitability.

Nippon Steel and U.S. Steel have signed an agreement for technical assistance by Nippon for U.S. Steel in the operation and maintenance of U.S. Steel’s blast furnaces; it is a standard consulting agreement. Per information provided by the parties during an August 19, 2024 meeting with the Committee, the agreement’s purpose is to allow Nippon to evaluate U.S. Steel’s blast furnaces to formulate a recommendation for future plans. Per the parties, this technical analysis has been focused on blast furnace #14 (BF14) at the Gary Works facility. U.S. Steel’s current business plan includes idling BF14 in 2026 upon the completion of a new EAF facility; however, U.S. Steel’s business plans have changed at various points in the past.

Under the technical agreement, U.S. Steel provided Nippon Steel with four possible investment scenarios with costs ranging from \$20-\$292 million (in addition to the already committed \$1.4 billion) and adding between 9 months and 20 years of useful life to the aging furnace. The Nippon Steel board of directors approved this planned investment scenario on August 28, 2024.

³⁵ *The Effect of Imports of Steel on the National Security, An Investigation Conducted Under Section 232 of the Trade Expansion Act of 1962, as amended*, U.S. Department of Commerce, January 11, 2018.

Per the parties, this decision is dependent on numerous factors related to market conditions.³⁷ Nippon Steel will also need to consider if an investment into BF14 fits in the overarching company strategy, especially in light of its current array of operational blast furnaces.

In addition to the possible investment in BF14, the parties also provided information about an additional investment proposal, approved by the Nippon Steel board of directors on August 28, 2024, into the Mon Valley Works facility, an aged integrated facility. Specifically, the planned investment would replace the current hot strip mill (HSM), which was installed in 1938. Per U.S. Steel, the mill's technical limitations due to the outdated HSM may pose a threat to the facility's long-term operations; however, the Mon Valley Works is U.S. Steel's lowest cost integrated mill operation and a key component of its overall business. Mon Valley Works is U.S. Steel's second largest U.S. flat-rolled facility by production capacity and consistently operates with a utilization rate of at least 75 percent, making it one of, if not the, most efficient of U.S. Steel's facilities. U.S. Steel has proposed replacing the HSM to revitalize and upgrade the facility, which would require an investment of at least \$1 billion (on top of its \$1.4-1.7 billion capital commitment) and likely four years to complete.

Per the parties, an investment of this scope and magnitude requires significant planning (in addition to high-level approval) so there is currently no timeline for execution or additional agreements in place. Nippon Steel requires approval by its board of directors and considerable technical and feasibility studies before it can seriously consider such an investment.

Additionally, any commitment to substantial capital investments require extensive engineering analysis. As the possible investment remains contingent on the engineering analysis, Nippon Steel has not begun making any preparations for a technical assessment or discussed the investment in its negotiations with the steel union.

Additionally, maintaining a competitive U.S. domestic steel market depends upon vigorous enforcement of U.S. trade laws. Leading domestic industry participants have asserted that "the most important trade remedy toolkit is the U.S. antidumping and countervailing duty laws," which are even more important drivers than other trade relief tools, such as section 232 of the Trade Expansion Act of 1962.

Foreign government subsidies and other market-distorting policies in the steel sector have resulted in massive global non-market excess capacity in steel—estimated by the OECD at more than 700 million metric tons, over seven times U.S. raw steel production.³⁸ This overcapacity, combined with sluggish world demand and import barriers in other markets, has resulted in significant levels of steel imports entering the U.S. market, capturing a historically high

³⁷ Per the parties, the following factors will impact Nippon Steel's considerations on actions to take concerning the Gary Blast furnace: timing of the investment with remaining hearth life; capital costs and capital allocation; market supply/demand balance; long term facility outlook; optimization of investment dollars; consideration of Best for All strategy; broader U.S. Steel enterprise level loading plan; enterprise strategic markets and facility product mix; and customer satisfaction, amongst others.

³⁸ OECD. March 25-26, 2024. [Recent Developments in the North American Steel Industry] Accessed on June 14, 2024.

percentage of U.S. market share and resulting in thousands of U.S. job losses and numerous plant closures throughout the steelmaking supply chain.³⁹

In the past decade, approximately 30 percent of all initiations of AD/CVD petitions covered steel-related commodities, and orders on steel products account for approximately 45 percent of all duty orders issued by Commerce—a total of 307 orders spanning 44 countries.⁴⁰ Steel likewise comprises a significant component of Commerce’s circumvention reviews. Trade measures cases are of paramount importance to maintaining sufficient domestic steel supply relative to U.S. demand.⁴¹

U.S. Steel has historically acted as a principal player in steel-related trade measure cases. U.S. Steel is a petitioner in 61 investigations that resulted in AD/CVD orders since 2011, and employees in U.S. Steel plants have separately supported an additional ten petitions through the United Steelworkers Union. As a petitioner, U.S. Steel (either as sole petitioner or joined by other interested parties) has obtained orders imposing duties on imports of a wide range of products, from carbon and alloy pipe, cut to length plate, hot-rolled carbon steel, cold-rolled steel, corrosion-resistant steel, oil country tubular goods, and more.⁴² Notably, U.S. Steel has been a petitioner in at least 13 steel cases in which Nippon Steel is a respondent, including cases in which U.S. Steel is the only petitioner.⁴³

Existing orders require ongoing participation by U.S. Steel and other petitioners.⁴⁴ Orders are subject to annual administrative reviews and every-five-year sunset reviews, where the agencies

³⁹ Burns, S. (2024, June 5). *AISI Releases Annual Statistical Report for 2023*. American Iron and Steel Institute. <https://www.steel.org/2024/06/aisi-releases-annual-statistical-report-for-2023/>

⁴⁰ According to data maintained by Commerce, Commerce has initiated on 167 steel-related petitions out of a total of 563 and Commerce maintains 303 orders on steel-related products out of a total of 676, as of May 15, 2024, from domestic industry and publicly available on ACCESS, *See* ITA, [https://access.trade.gov/ADCVD_Search.aspx] Accessed on July 15, 2024.

⁴¹ Testimony from major steel industry groups, members of Congress, and other stakeholders reveals the extent to which American steel producers have relied upon the trade laws to “restore ... fairness to the market place.” *See, e.g.,* Statement of Terrence L. Hartford, SSINA, May 24, 2017; *id.* (noting that any relief afforded under section 232 “cannot undermine the antidumping and countervailing duty orders that have been effective in restraining import surges”); Statement of Lourenco Goncalves, CEO of Cleveland-Cliffs (Sep. 15, 2022), available at <https://kaptur.house.gov/media-center/press-releases/kaptur-testifies-international-trade-commission-support-trade> (“The continuation of these orders is critical to ensuring that the United States maintains a technologically advanced and carbon efficient steel industry [and] will support market conditions that enable further transformational investments by our company.”); Statement of Joe Manchin in Testimony before the USITC (Jan. 4, 2024), available at <https://www.manchin.senate.gov/newsroom/press-releases/manchin-testifies-before-the-international-trade-commission-in-support-of-cleveland-cliffs-domestic-steel-industry>.

⁴² *E.g.,* A-588-850, Carbon and Alloy Seamless Standard, Line and Pressure Pipe from Japan; A-533-817, Certain CTL Carbon-Quality Steel Plate from India. *See* ITA, [https://access.trade.gov/ADCVD_Search.aspx] Accessed on July 15, 2024.

⁴³ *Ibid.*

⁴⁴ U.S. Steel was a petitioner in the 13 AD/CVD cases. *See* ITA, [https://access.trade.gov/ADCVD_Search.aspx] Accessed on July 15, 2024.

will consider varying or revoking import duties.⁴⁵ AD/CVD cases require considerable outlays, and often “[s]maller steel manufacturers are financially unable to afford these type of cases.”⁴⁶

AD/CVD is therefore an indispensable authority in protecting the steel industry and specific steel products, as steel industry leaders have repeatedly emphasized. Other trade measures protect U.S. national security and help the U.S. domestic steel industry to revive idled facilities, open closed mills, and maintain or increase of production lines, while promoting job creation and expansion of production lines for critical materials.⁴⁷

More broadly, domestic-owned firms tend to bring more petitions than foreign-owned firms. Since 2011, four domestic steel firms—Nucor, U.S. Steel, Cleveland-Cliffs, and Steel Dynamics—have filed approximately 190 steel-related AD/CVD petitions. In the same time period, eight foreign-owned steel firms with significant U.S. presence have participated in 127 (none of which were filed by Nippon Steel). In most of these cases, the petition activity was led by a domestic firm. The four largest U.S. steel producers average 47.5 petitions per firm since 2011 compared to fewer than 18 per foreign firm, with nearly all foreign-owned AD/CVD activity driven by a single outlier company, ArcelorMittal. Some domestic producers attributed the U.S. International Trade Commission’s (USITC) negative decision in a recent AD/CVD case to U.S. Steel’s decision not to participate in the Commerce and USITC proceedings.

In assessing the consequences to national security, CFIUS considered the potential effects on national security that could reasonably result from the exploitation of the vulnerabilities and concluded that such effects could impair the national security of the United States. The consequences to national security that have been identified relate to possible supply chain disruptions to sectors critical to national security under Section 721(f)(6), particularly transportation, infrastructure, construction, and agriculture. A continued loss of viable commercial production capabilities and related skilled workforce will jeopardize the U.S. steel industry’s ability to meet the full spectrum of national security requirements.⁴⁸

The Committee appreciates the engagement of the Parties since March, including the presentations, voluminous submissions, and extensive responses to questions described above.

⁴⁵ 19 CFR 351.218.

⁴⁶ *The Effect of Imports of Steel on the National Security, An Investigation Conducted Under Section 232 of the Trade Expansion Act of 1962, as amended*, U.S. Department of Commerce, January 11, 2018.

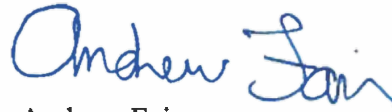
⁴⁷ The President has noted that Section 232 national security measures on steel will help the U.S. domestic steel industry to revive idle facilities, open closed mills, and maintain or increase of production lines. *Adjusting Imports of Steel into the United States*, 83 FR 11625. *See also* Senator Brown. January 4, 2024.

[<https://www.brown.senate.gov/newsroom/press/release/Sherrod-brown-testifies-international-trade-commission-ohio-steelworkers-industry>] Accessed on July 3, 2024.

⁴⁸ *See* Appendix H in *The Effect of Imports of Steel on the National Security, An Investigation Conducted Under Section 232 of the Trade Expansion Act of 1962, as amended*, U.S. Department of Commerce, January 11, 2018.

Please provide any new or relevant information for the Committee's consideration no later than the opening of business on Wednesday, September 4, 2024.

Sincerely,

A handwritten signature in blue ink that reads "Andrew Fair". The signature is fluid and cursive, with the first name "Andrew" and last name "Fair" clearly distinguishable.

Andrew Fair
Deputy Assistant Secretary for
Investment Security Operations
Department of the Treasury

ANNEX

The Committee also considered the following unclassified sources as part of its review:

- [https://cortlistener.com/docket/60401183/Nippon Steel-steel-corporation-v-united-states/](https://cortlistener.com/docket/60401183/Nippon%20Steel-steel-corporation-v-united-states/), accessed on August 12, 2024.
- Bloomberg. February 5, 2024. US Steel Equity Research 9. Past Programs Failed to Move Needle. Accessed on June 28, 2024.
- GAO, December 12, 2022 [<https://www.gao.gov/products/gao-23-105794>] Accessed on July 1, 2024.;
- World Steel Association. World Steel in Figures 2023. [www.worldsteel.org/data/world-steel-in-figures-2023] Accessed 29 March 2024.
- Nippon Steel. Manufacturing Bases - Nippon Steel. [www.nipponsteel.com/en/company/bases] Accessed 28 March 2024.
- GIC. Report on the Management of the Government's Portfolio for the Year 2019/2020. [<https://www.gic.com.sg/our-portfolio/gic-reports/>] Accessed 8 February 2023
- Tokyo Bungei Shunju (Japanese). July 17, 2012. Japan: Prime Minister Noda Said to Name Chikao Kawai Next Vice Foreign Minister. Accessed 22 December 2023.

Appendix: Critical Industry Appendix I from Section 232 Report⁴⁹

Figure I. DHS Critical Infrastructure Sectors - Use of Steel⁵⁰		
	<i>Sectors</i>	<i>Steel End-Uses</i>
1.	Chemical Production	Centrifuges, Conduit, Fire Suppression, Flange Heaters, Incubators, Piping, Stainless Steel Heaters, Storage Tanks, Safety Showers
2.	Commercial Facilities	Structural Beams, Electrical Conduit, Kitchen Equipment, Elevators, Escalators, Waste Pipes, Metal Framing and Studs, Machinery, Valves, Manufacturing Plants, Chemical Processing Plants
3.	Communications	Antennas, Radio/TV Antenna Masts, and Transmissions Towers, Tower Cables
4.	Critical Manufacturing	Blast Furnaces, Rolling Mills, Extrusion, Casting, Forging Production Plants; Fabrication Facilities (i.e. Bend, Cut, Mold, and Stamp steel materials). Specialty Metals Production (i.e. Stainless Steel, Alloy Steel, Magnetic/Electronic, High Strength Alloy Steel, Carbon Steel), Plates, Hot Rolled Round Bar, Cold Finished Steel Bars, Steel Wire, Rebar
5.	Dams	Reinforced Dams and Reservoirs (Rebar, Piping, Structural Supports, Flood Gates, Water Release Gates and Valves, Turbine Supports)
6.	Defense Industrial Base	Armored Personnel Carriers, Heavy Weapons (i.e. Cannon, Machine Guns, Missiles), Humvees, Jet Aircraft, Submarines, Munitions, Aircraft Engines, Fighting Vehicles, Tanks, Ship Propulsion Systems
7.	Emergency Services	Ambulances, Fire Trucks, Helicopters, Portable/Temporary Shelters
8.	Energy	Petroleum Refineries (i.e. Specialty Pipe, Valves, Fittings), Oil and Gas Pipelines (i.e. Steel Plate, Heavy Gauges), Storage Tanks, Electricity Power Generating Plants, Electric Power Transmission Towers, Power Distribution Grids and Stations, Transformers, Utility Distribution Poles, Transformer Cores, Wind Turbines

⁴⁹ *The Effect of Imports of Steel on the National Security, An Investigation Conducted Under Section 232 of the Trade Expansion Act of 1962, as amended*, U.S. Department of Commerce, January 11, 2018.

⁵⁰ Department of Homeland Security, "Critical Infrastructure Sectors," <https://www.dhs.gov/critical-infrastructure-sectors> (accessed May 2024)

9.	Financial Services	Steel Safes, Bank Vaults, Lockers, Armored Trucks, Building Doors and Barriers
10.	Food and Agriculture	Canned Goods, Harvesters, Mechanical Planters, Balers, Tractors, Storage Silos, Partitions, Gates, Watering Systems, Fencing Systems (i.e. Gates, Barb Wire, Posts)
11.	Government Facilities	Structural Steel, Elevators/Escalators, Furniture, Piping, Vehicle, Barriers, Vault Doors, Barracks, Storage Buildings, Shelving, Records Storage, Fences
12.	Health Care/Public Health	Elevators/Escalators, Hospital Framing, Structural Supports, Roofing, Operating Tables, Furniture, Wheel Chairs, Bed Frames, Waste Pipes and Fire Suppression Pipe, Medical Devices (i.e. Drug Delivery Needles, Surgical Pins and Screws)
13.	Information Technology	Data Center Cooling Systems, Data Center Structural Supports, Electronic System Racks, Electrical Conduit, System Cabinets,
14.	Nuclear Reactors, Materials, and Waste Sector	Structural Steel, Pressurizers, Reactor Pressure Vessels, Safety Water Tanks, Containment Vessels, Primary Pumps and Steam Water Lines, Steam Generator Components, Cooling Towers, Overhead Cranes for Reactor Maintenance.
15.	Transportation Systems	Airports, Aircraft, Bridges, Highways, Railroads, Mass Transit Systems, Seaports, Navigation Systems, Shipbuilding, Trucks, Trailers, Boats, Ships
16.	Water and Waste Water Systems	Water Distribution Pipes, Storage Tanks and Towers, Valves, Storm Water Distribution (i.e. Culverts, Flood Control Gates), Waste Water and Sewage Treatment Facilities
<p>Note: Presidential Policy Directive (PPD-21) on Critical Infrastructure Security and Resilience, issued in February 2013, identified 16 industrial sectors. See: https://www.dhs.gov/critical-infrastructure-sectors.</p> <p>Source: Bureau of Industry and Security, multiple industrial references.</p>		